

**Town of Arlington
Power Company Feasibility Committee**

April 28, 2003

Dear Town Meeting Members,

In 2001, Arlington residents compared the price they paid for electrical power to neighboring towns and found that their price was often higher. The town had numerous power outages that were frustrating in their frequency and duration. Seeking a solution to these problems, 10 voters put an article on the 2002 Warrant to create a Power Company Feasibility Study Committee. The 2002 Town Meeting voted to create the committee. We first met in November, and have met a half-dozen times since then. This is our first report.

We recommend that the town attempt to become a power aggregator, and ask Town Meeting to support Article 25. Aggregation has the potential to save 5-10% on the typical electrical bill. Please read the attached report to learn more about aggregation and our investigation. There is much more investigation that needs to be done before aggregation becomes reality.

Approval of this article will not cost the town any money, nor does it obligate the town to take any future action. The idea requires more investigation, and the town will have the opportunity to consider aggregation again before any costs are incurred. Approval of this article is the necessary first step in the process of considering aggregation.

Sincerely,

Michael Quinn, Chairman (appointed by Board of Selectmen)
John FitzMaurice, Vice Chair (Capital Planning Committee)
Dan Dunn, Secretary (appointed by Board of Selectmen)
John Bilafer (Town Treasurer)
Sid Feinleib (Finance Committee)
Nancy Galkowski (Acting Town Manager)
Paul Schlichtman (appointed by Town Moderator)

**Town of Arlington
Power Company Feasibility Committee
Report to Town Meeting 2003**

Summary

The Committee recommends that Arlington pursue an electrical aggregation plan and pass Article 25. Aggregation will lead to a better energy market in Arlington with savings for its residents. Our report is in three parts:

- Definitions
- Discussion
- Possible timeline

Definitions

Power generation and power delivery:

In 1997, Massachusetts split the power industry into two parts. One set of companies generates the power in electrical plants; the second set delivers the power over the wires. Currently, NSTAR is the company that delivers the power to Arlington. They maintain the wires, transformers, and sub-stations; hook up and disconnect service; do billing and collection; etc. NSTAR does not generate the power; they buy the power from other companies on the open market and deliver it to consumers.

What is aggregation?

Aggregation is when the town pools the buying power of its residents and businesses to negotiate a lower rate with the power generators. The town uses quite a bit of power every year; some generators will give a price break if they are guaranteed all (or nearly all) of the town's electrical business.

What is municipalization?

Municipalization would be if the town bought the wires, transformers, and supply stations from NSTAR and became our own power company. The process would be a slow one. NSTAR will not do this willingly, and the town would have to act by eminent domain. The last town in Massachusetts to municipalize was Chester in 1926.

Today	Aggregation (in 2 years?)	Municipalization (in 10+ years?)
<ul style="list-style-type: none">• NSTAR buys power from generators for residents	<ul style="list-style-type: none">• Arlington negotiates a lower price with generators, acting as agent on behalf of consumers	<ul style="list-style-type: none">• Arlington buys power from generators for residents
<ul style="list-style-type: none">• NSTAR collects and administers the energy efficiency fees (fee is defined below)	<ul style="list-style-type: none">• Arlington receives and administers the energy efficiency fees	<ul style="list-style-type: none">• Energy efficiency fee is optional
<ul style="list-style-type: none">• NSTAR owns the wires, transformers, etc.	<ul style="list-style-type: none">• NSTAR owns the wires, transformers, etc.	<ul style="list-style-type: none">• Arlington owns the wires, transformers, etc.
<ul style="list-style-type: none">• NSTAR does billing and collection	<ul style="list-style-type: none">• NSTAR does billing and collection	<ul style="list-style-type: none">• Arlington does billing and collection

What is the process to become an aggregator?

First, the town must vote to become an aggregator; this vote is contained in Article 25. The town will then write an aggregation plan, in consultation with the Massachusetts Division of Energy Resources (DoER). The plan then has a public hearing and needs interim approval from the Board of Selectmen. The plan is then submitted to the Department of Telecommunications and Energy (DTE) for approval. Once the plan is approved, the town formally requests bids from power suppliers; state law requires that a bid must beat the standard offer rate before it is accepted. The final contract is then negotiated and approved by the selectmen and DTE.

What is the standard offer rate?

The majority of Arlington residents pay for their power at a rate called the "standard offer." This rate is set by the state; it represents the cost of power that NSTAR is buying on the market for consumers minus a subsidy. It was 4.95¢ per kWh in March, and is likely to increase to 5.85¢ per kWh in July. Consumers receive the standard offer rate until February 2005; under current law, the subsidy goes away at that time.

What is default service?

People who started electrical service after April 1998 are charged a higher rate; that rate is called default service. Basically, this applies to anyone who has moved since the regulation came into effect. It was 5.05¢ per kWh in March, and is likely to increase to more than 6¢ per kWh in July. This rate is also set by the state, and becomes fully unregulated in 2005 under current law.

What is the "energy efficiency fee"?

Massachusetts charges a fee of 0.25¢ per kWh on every electric bill to pay for an energy efficiency fund, or roughly 2% of your electrical bill. That fund is currently administered by NSTAR. The fund supports such items as rebates for energy efficient appliances, free reviews of electric energy use, and aid for new construction. If Arlington becomes an aggregator, it could create and administer its own fund, though the amount collected would not change.

What has already been done?

The Town Meeting of 2000 took a vote similar to the one proposed in Article 25. We're asking for a new vote to endorse some important changes in language, and because we want the Town Meeting and residents to learn more about aggregation.

The town has already started a limited form of aggregation. Under the direction of Town Manager Farrington, the town buildings' electrical bills (including the schools') were bundled together and put out to bid; the town signed a 4-year deal in August and pays 4.7¢ per kWh to TransCanada Power (for current residential rates see appendix).

Discussion

The basic issue is one of money. If aggregation works as expected, every user of electrical power in town will save money on their electrical bill—perhaps 5-10%. The town itself, as a user of electrical power, will also spend less. This savings reduced by the cost of the bid process; the town will have to expend some time and energy to start and maintain aggregation. This plan does not remove individual choice; anyone can leave the plan at any time.

Another reason to pursue aggregation is so that the Town could control revenues from the energy efficiency fee. The program might include rebates for energy efficient appliances, free reviews of electric energy use, and aid for new construction. This fund would be approximately \$250,000 per year. We could take advantage of this fund while we are still in the process of aggregating. If Arlington has a DTE-approved energy efficiency plan, we can administer this money on a local level. We don't have to wait until we have completed the aggregation process. We can start the energy efficiency program as soon as the plan is approved.

One issue that figures prominently in the aggregation question is state law. The current regulation is set to expire in February 2005. By starting down the path now, we will be prepared for changes that might take place. The 1997 legislation was supposed to open up retail competition among power generators, but it has failed. We don't know what the legislature might do in 2005, but we want to be in a position to make educated decisions. If we do nothing, we will be forced to accept whatever plan is the new default. One plan that has been implemented in other states, and suggested in Massachusetts, is to have customers assigned, at random, to competitive suppliers. If we're prepared, we choose our own generator company and aggregator.

The example of aggregation in Massachusetts today is the Cape Light Compact. 21 towns on Cape Cod have joined together and approved an aggregation plan. They have a pilot program running, but have not started full aggregation. They have an energy efficiency program in operation. They have been, thus far, unable to beat the subsidized price of the standard offer, while they can beat the default offer. They report that they are successful and happy with their aggregation pilot and energy efficiency program.

Our committee has considered municipalization, but it is a much longer-term question. It would take years to implement. It has a high start-up cost and has significant risks over time. The financial outcome of municipalization is uncertain. We have begun investigation of this option and will continue to do so. We expect that the process of aggregation will give us information that is very helpful to our investigation of municipalization.

Timeline

If the town decides to work towards becoming an aggregator, the timeline might look like this:

2003

April: Article 25 goes before Town Meeting

May - September: Write an aggregation plan. Consult with the Massachusetts Division of Energy Resources (DoER).

October: Public review of the draft aggregation plan, including hearing and interim approval by the selectmen.

November: Submit plan to the Department of Telecommunications and Energy (DTE); receive approval.

December: Start drafting energy efficiency fund and programming.

2004

January-March: Start draft of request for proposals (RFP)

April: Request approval from Town Meeting for funds to implement aggregation. Costs are likely to consist of legal advice and a consultant to help with RFP and bid process. Place the energy efficiency plan before Town Meeting for approval.

Summer-Fall: Issue RFP. Receive bids. Negotiate contract.

Winter: Selectmen vote on contract. Submit to DTE for final approval.

2005

Spring: Aggregation program begins.

Appendix - Components of an Arlington resident's electric bill

Fixed customer charge \$6.43/month

Supply (generation and upstream transmission)

- Standard Offer/Default Service line on the bill, NSTAR is a wholesale buyer (4.95 or 5.045 cents/kWh) 5.0¢/kWh

Transition/Energy Efficiency/Renewables

- Transition Charge for past uneconomic investments 1.813¢/kWh
- Energy conservation charge 0.25¢/kWh
- Renewable energy 0.05¢/kWh

Delivery

- Transmission system and Distribution system
- Metering and Billing 4.633¢/kWh
- Low income cross-subsidy (total delivery)
- Customer service

Total cost is 11.746¢/kWh, plus \$6.43 flat fee. Aggregation would replace the "supply" component of the bill.

ARTICLE 25
AGGREGATOR

TOWN ELECTRICAL LOAD

To see if the Town will vote to do all things necessary and appropriate to become an electrical load aggregator for citizens within its boundaries pursuant to the provisions of Section 134 of Massachusetts General Laws Chapter 164, or take any action related thereto

(Inserted at the request of the Power Company Feasibility Committee)